

GEORGIA-ROMANIA ECONOMIC COOPERATION AND THE NEW REGIONAL CHALLENGES

Lela JAMAGIDZE*

Abstract

The goal of the present paper is to analyze key issues in the economic relationship between Georgia and Romania. The analysis covers the dynamics of bilateral flows of goods, services and capital. It highlights the opportunities as well as the shared challenges that exist in the areas of trade and investment, transport and energy cooperation. Geographical proximity as well as a number of similarities in the economic structures and development levels of the two countries help them develop bilateral economic connections. Statistical analysis of the data on economic and institutional cooperation are used in order to show how Georgia and Romania are represented in the economic initiatives of mutual interest and how the two countries contribute to each other's positioning in the global and regional markets. Considering the current economic and security threats in the region, the study suggests that bilateral, country-to-country dimension of economic integration should be strengthened between the two countries in order to translate regional integration benefits into the real economic gains.

Keywords: Georgia, Romania, trade, economic cooperation, regional integration

Introduction

In 1992 Georgia and Romania established bilateral diplomatic relations. Throughout these decades the political relations, trade and economic cooperation between the two countries have been dynamically developing. However more detailed analysis of the bilateral economic transactions and flows shows that full potential is under-realized due to various external and internal impediments. Historically those two nations have had friendly and dynamic ties based on their geographical proximity (situated on the West and East sides of the Black Sea) and their cultural and religious similarity. After the collapse of the Eastern Bloc Romania has been successful in its strategy to return to Europe. It joined the EU in 2007.

* Lela JAMAGIDZE is Associate professor at Department of International Economics and History of Economic Thought, Faculty of Economics and Business, Ivane Javakhishvili Tbilisi State University, Georgia; e-mail: lela.jamagidze@tsu.ge.

Georgia considers accession the top foreign policy priority and is striving at it through the implementation of intensive economic and political reforms.

After Romania joined the EU in 2007, Georgia became a priority state for development assistance under the EU principles. Romania financed development projects in Georgia worth about 2 million Euros in the areas of common interest such as economic development and social justice, human rights, education and civil society (Georgescu *et al.*, 2012). Now Georgia holds the Association Agreement with the EU and is a partner within the Eastern Partnership under the European Neighborhood Policy. Last year Georgia, Ukraine and Moldova established “Associated Trio” in order to develop closer ties with the EU. At all stages Romania has been actively supporting the integration efforts of Georgia and has been willing to share its experience with the European and Euro-Atlantic path. Strengthening of the bilateral ties and the support is especially important against the background of the ongoing War between Russia and Ukraine. Russia’s invasion on Ukraine has significantly altered the political, strategic and economic framework conditions for European regional cooperation and for its neighborhood as well and hence the need to improve the achieved level of economic integration both at the bilateral and the regional levels have become even more evident.

In 2021 Romania was the fifth largest trade partner of Georgia among the EU countries by total trade turnover and for the last decade it has been among the top ten export markets within the EU, evidently as geographically the closest EU Member State. A significant stimulus for the bilateral trade and economic relations has been completion of the EU-Georgia Association Agreement that entered into force in July 2016. It aims at political association and economic integration between the EU and Georgia. The agreement introduces a preferential trade regime – the Deep and Comprehensive Free Trade Area (DCFTA), provisionally applied since September 2014 that removes all import duties on goods and provides for broad mutual access to trade in services. However, analysis of the recent data shows that the share of the EU in Georgia’s total trade has been stable rather than increasing, while its total trade with Romania has decreased. Therefore, the underlying causes and impediments need to be studied and policy recommendations be developed in order to ensure that Georgia’s strategic aspirations towards the EU have solid economic foundations. Approximation with the EU is impossible without the expansion of the bilateral economic linkages with individual EU countries. Therefore the analysis of the achieved level of development of economic integration with the EU member states and especially with the relatively new member countries is paramount to identify potential areas of profitable cooperation. From Georgia’s perspective Romania can be a certain channel to reach the markets of more developed members of the EU. In this regard, the present study can lead to appropriate recommendations for the government and the firms to get tangible positive gains of deeper economic integration.

2. Method and data

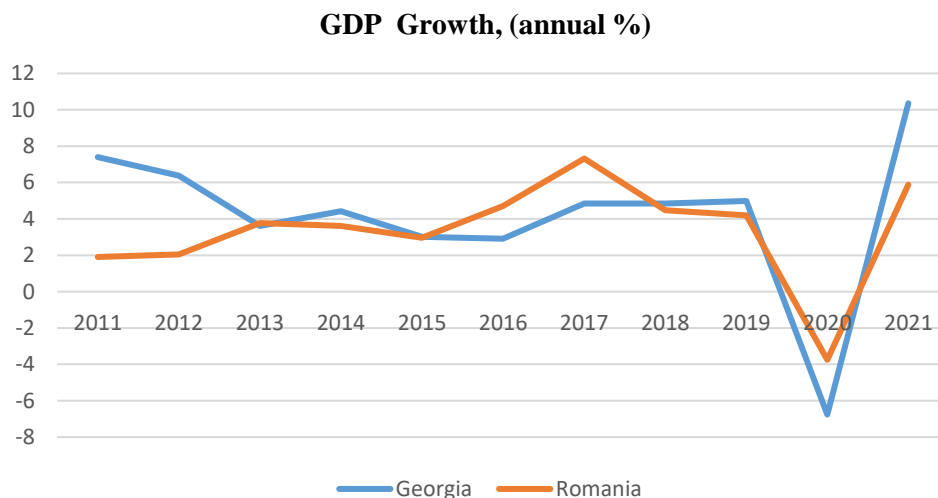
The present study is based on the scholarly literature on the bilateral and regional economic integration and statistical data analysis. The statistical data come from online databases with specific economic and trade related information, such as the World Bank (2022), the UNCTAD (2022), the statistics offices of Georgia and Romania and the EU official statistics databases. We will focus on the 2011-2021 timeframe to cover the last decade of economic cooperation between the two countries. Statistical analysis of the data on economic and institutional convergence, and those on goods, service and financial flows are used in order to show how Georgia and Romania are represented in various regional markets and economic initiatives of mutual interest and how the two countries can contribute to fostering each other's potential in the regional integration context.

In order to achieve the research goals the following tasks are set: to present the general economic background indicators of both countries; to evaluate the dynamics of bilateral exports, imports, trade balance and product structure of trade; to outline the main trends in the bilateral foreign direct investment flows; to present the recent developments in bilateral cooperation in energy and transport sectors; to evaluate current regional economic challenges and draw policy recommendations on the future prospects of Georgian-Romanian economic ties within the European integration framework.

Regarding the trade we conducted an observation on the imports and exports patterns to get an idea on the composition, complexity and diversity of bilateral trade flows. Cooperation in energy and transport sectors is of strategic importance for both countries and their performance is analyzed based on Logistics Performance Index and the main energy cooperation projects of mutual interest are discussed.

1. The analysis of bilateral trade relations

Macroeconomic conditions of the two countries have had success in a number of directions manifested by a stable economic growth over the period of 2011-2021, which accounted average 4 percent annually in Georgia. Romania's economic growth was also on an upward trend, rising from 1.9% in 2011 to 5.9 in 2019, and it has manifested one of the best economic performance among the countries of the EU. Its GDP per capita has reached 63% of the OECD average in 2019 (OECD, 2022).

Figure 1. Economic Growth, Georgia and Romania Compared, 2011-2021

Source: Author's representation based on World Development Indicators, Popular Indicators.

The benefits of growth has been translated into the improved welfare indicators in the two countries. According to the World Bank estimations the poverty rate measured by the international upper-middle-income line (US\$5.50 per capita per day, 2011 purchasing power parity) declined from 59 percent in 2011 to 42 percent in 2021 (World Bank, 2022) in Georgia, while Romania was classified as high income country for the first time in 2019. According to the OECD Economic Survey, the EU membership was pivotal in improving Romania's trade performance.

Romania's exports grew strongly over the past decades and accounted for 40% of GDP in 2019 (it was around 25% in early 2000's). Around 85% of exports are directed to EU countries, Germany, Italy and France being the main destinations. Although Romania managed to successfully diversify its export basket from labor-intensive, low-technology sectors (textile industry, raw material) toward medium-technology products and more advanced sectors (automotive, machinery, and electronic equipment, and information and communication services), it still lags behind most OECD countries in terms of access to high-quality education, healthcare, housing and transport infrastructure. Georgia faces a number of weaknesses in terms of export performance, including low economic diversification, weak manufacturing activity (9% of GDP in 2020) and low productivity in agriculture (7% of GDP, 20% of the workforce in 2020).

Romania is more domestic market oriented than Georgia, what can be partly explained by the larger size of its economy. Georgia's trade openness and

dependence on income from tourism makes its economy vulnerable to external and global shocks. It became especially evident during the pandemic.

The Figure 1 below represents the dynamics of the main indicators of bilateral trade. It illustrates that trade volumes boosted in 2013-2014, followed by a relative fall in the following years. The total trade turnover between Georgia and Romania peaked in 2019. The exports from Georgia to Romania increased by over 200%, followed by a fall of nearly 90% in 2020. This can be partly explained by a diversion of Georgia's trade flows. After the implementation of Georgia-China FTA, China turned into the top export partner of Georgia with 113% increase in 2020. Another explanation is that as a result of the pandemic, there was a reduction in total trade. In 2020 Georgia's foreign trade turnover decreased by 14.8% compared to the same period last year, amounting to USD 11347.7 million. Exports decreased by 12% year-on-year to USD 3342.1 million, while imports were down by 15.9%. In 2020 exports and imports decreased with almost all important trade partners, including the EU.

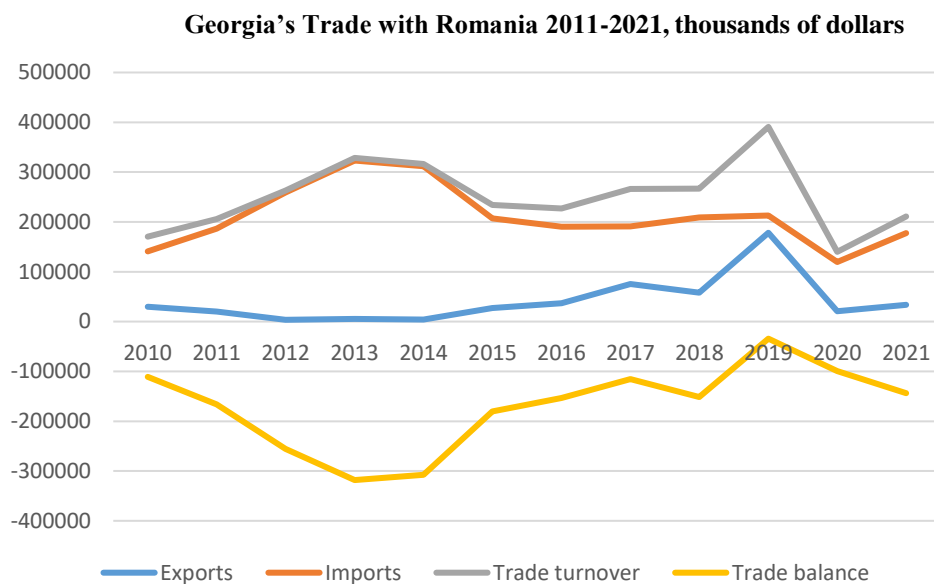
Georgia-EU foreign trade turnover of 2020 decreased by 18% compared to the same period last year, amounting to USD 2638 million. Exports to the EU decreased by 12% to 717 USD million, constituting 21% of Georgia's total export, while in 2019 it took 22%. Imports were down by 20%, reaching USD 1921 million and taking 24% of Georgia's total import, while it constituted 25% in 2019. Since 2021 there has been a recovery of commercial exchange between Romania and Georgia, reaching \$230 million what is an increase of 105.5 percent compared to 2020. Meanwhile, exports increased by 87 percent, and imports - by 219.4 percent. Import exceeds exports and therefore Georgia's trade balance with Romania has been constantly negative for the last decade.

The analysis of bilateral export and import shows that Romania has represented an outstanding trade partner of Georgia among the EU countries for years. Until 2017 among the EU countries Romania used to be the biggest market for Georgian exports after Bulgaria. Territorial proximity as well as sharing of the Black Sea coast by the two countries makes transportation of many types of cargoes effective by ships. In 2017 Romania was among top ten export partners of Georgia, however the situation has changed and now it does not appear among the top ten export destinations.

Currently export to Romania accounts 0.79% of Georgia's total export. Its share in imports is greater and it accounts 1.75%. The export share does not show a stable path as it has been fluctuating over the last decade, reaching the highest value in 2019 (4.69%). Romania's share in Georgia's imports and in total trade turnover has been relatively stable, showing a decrease in 2020-2021 largely due to contractions of the economy and trade fall during the pandemic. From the regional perspective the positions of Romania as Georgia's partner by total trade remain stable within the EU, as well as within BSEC during the last decade. The Share of

Romania in total trade turnover with EU and with BSEC countries reached its maximum in 2019 and accounted for 12.56% and 5.88%, respectively.

Figure 2. Georgia's Trade with Romania 2011-2021, thousands of dollars



Source: Author's representation based on the data of Georgia's Statistics Office

Figure 3. Share of Romania in Georgia's trade relative to the selected world and regional trade indicators, by world and regions %

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Export to the world	0.90	0.15	0.17	0.15	1.22	1.73	2.74	1.71	4.69	0.61	0.79
Import to the world	2.63	3.22	4.03	3.63	2.84	2.59	2.37	2.23	2.23	1.48	1.76
Turnover to the world	2.22	2.52	3.002	2.76	2.46	2.40	2.46	2.09	2.93	1.23	1.47
Turnover to the EU	8.67	9.92	11.92	10.99	8.95	8.61	9.62	8.43	12.56	5.49	6.96
Turnover to BSEC countries	4.34	5.02	5.65	5.24	5.01	4.98	4.92	4.22	5.88	2.44	2.962

Source: Author's calculations based on Georgia's Statistics Office Data

In 2021 Georgia exported 82 products by HS 4-digit categories to Romania. The non-diversified export patterns are evident from the analysis of trade data since 2011. Fertilizers and ores and slash have been the leading product categories since 2011. Vegetables, fruits, spirits and beverages and pharmaceuticals also fall into the export categories. There is some improvement in the industrial patterns of exports, as the amount of some manufactured goods, textiles and machinery has increased in the exports in recent years.

Figure 4. Georgia's export to Romania by top product categories 2020-2021, Thousands of dollars

HS Code	Category	2020	2021
31	Fertilizers	10948.55	30373.32
26	Ores, slag and ash	8199.07	
07	Edible vegetables and certain roots and tubers	458.53	122.15
96	Miscellaneous manufactured articles	281.64	531.24
40	Rubber and articles thereof	186.57	165.30
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	133.24	883.31
72	Iron and steel	78.10	
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	66.96	214.64
44	Wood and articles of wood; wood charcoal	30.36	27.73
24	Tobacco and manufactured tobacco substitutes	–	549.00
72	Iron and steel	78.10	350.01
95	Toys, games and sports requisites	15.70	106.93

Source: Foreign Trade Portal of Georgia's Statistics Office <http://www.geostat.ge/>

The range of import product categories is much wider. In 2021 Georgia imported 220 products by HS 4 digit categories. However the patterns of imports also lack diversity. Mineral fuels, food industry residues and waste, rubber and tobacco accounted for the bulk of imports in 2020-2021. Relatively complex imported industrial product categories are pharmaceuticals, textiles and machinery.

Figure 5. Georgia's import from Romania by top product categories, 2020-2021

HS Code	Category	2020	HS Code	Category	2021
27	Mineral fuels, mineral oils	92673.51	27	Mineral fuels, mineral oils	144656.11
23	Residues and waste from the food industries;	7882.03	23	Residues and waste from the food industries;	6166.45
40	Rubber and articles thereof	3984.16	24	Tobacco and manufactured tobacco substitutes	5613.15
30	Pharmaceutical products	2356.16	87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	3183.85
24	Tobacco and manufactured tobacco substitutes	1981.54	40	Rubber and articles thereof	2527.43
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	1932.90	44	Wood and articles of wood; wood charcoal	2367.79
44	Wood and articles of wood; wood charcoal	1546.18	84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	2184.26
39	Plastics and articles thereof	870.24	72	Iron and steel	1979.79
85	Electrical machinery and equipment and parts thereof	718.87	30	Pharmaceutical products	1706.96
61	Articles of apparel and clothing accessories, knitted or crocheted	673.77	39	Plastics and articles thereof	815.62

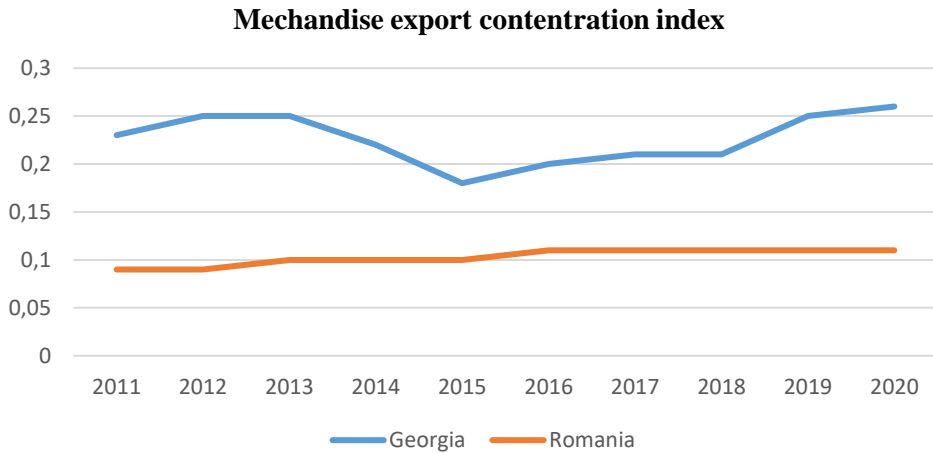
Source: Statistics Office of Georgia, Foreign Trade Portal

The comparison of the two countries shows that Georgia and Romania used to have approximately the same degree of economic complexity in the 1990s. Since the 2000s a diverging trend is evident, as Georgia's economic complexity index and ranking was constantly falling up to 2010. Slight improvements are taking place now. Starting from the 2000s Romania has taken important steps towards producing more diversified and sophisticated products designed for exports. The share of medium and high-tech manufactured exports has doubled during the last decade and now it considerably outperforms Georgia. According to the World Bank Economic Complexity Index (2019) Georgia ranks as the 63rd most complex country, while Romania is the 22^d in the world.

Comparing the product concentration and the diversification indices of the two countries shows that Romania's exports and imports are less concentrated, while the

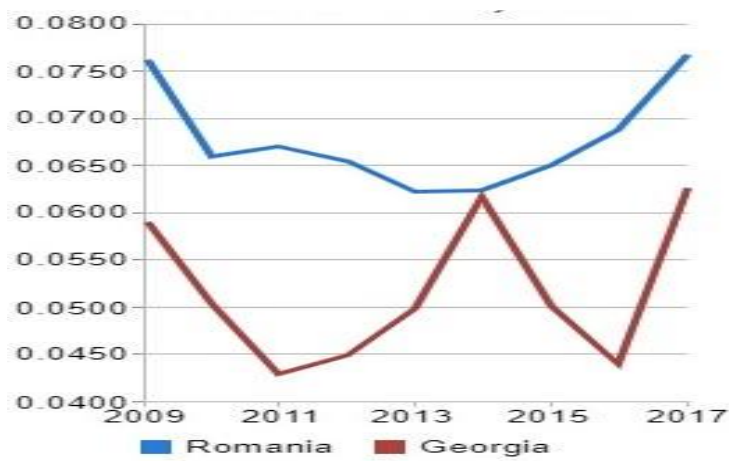
dynamics of the index values show a stable trend. Georgia's product concentration index has increased since 2009. In addition to it, there are ups and downs, what is an indication to some random and non-trending trade flows caused by some unexpected changes in the exported or imported product categories.

Figure 6. Georgia and Romania Product Concentration Indices, 2011-2020



Source: Author's representation based on World Bank Data - Merchandise: Concentration and diversification indices of exports

Figure 7. HH Market Concentration Index



Source: Author's representation based on WITS - HH Market concentration index

Dispersion of trade values across their trade partners (measured by Hirschman-Herfindahl index) shows that both countries have improved their market concentration since 1990s. Higher index value for Romania can partly be explained by its relatively large-sized economy. Ups and down in Georgia's index values are mainly due to random, stochastic and non-recurring changes in the trade ties with its trade partners.

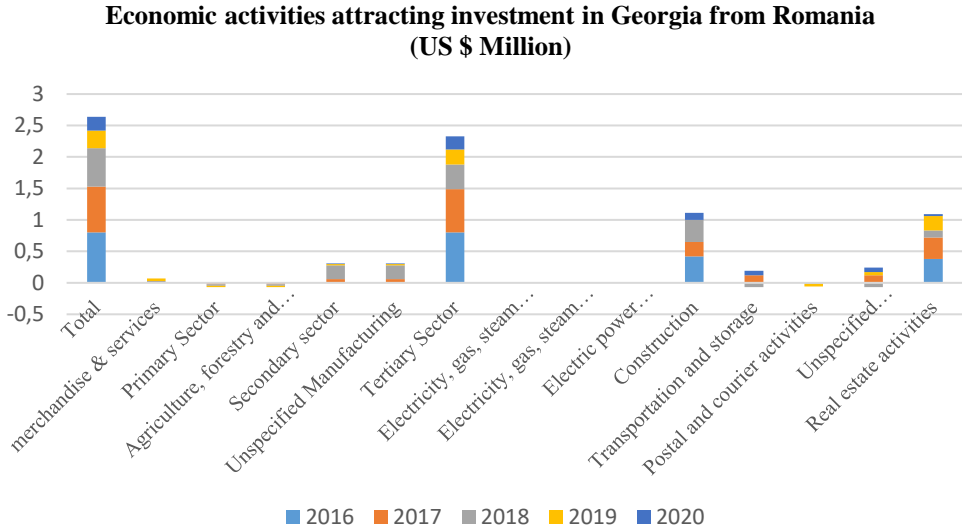
2. Bilateral Financial Ties: Investment Flows and Monetary Transfers

Bilateral financial ties are weaker compared to trade. Georgia does not represent a home of outgoing FDI given its negative trade balance and its own need to attract capital to modernize the economy. In 2011-2020 Romania's net FDI outflows was characterized by ups and downs, falling to the negative value of -207 448 373 million in 2012 and reaching its maximum in 2019 (1.92 billion US dollars). The two countries have created the necessary legal framework to promote bilateral investments. An Agreement on the Promotion and Reciprocal Protection of Investments was signed in January 1997. Georgia holds agreements for the avoidance of double taxation with 55 countries, including Romania. These treaties facilitate investment flows between Georgia and Romania, and hence the expansion of economic relations. Georgia has been very open to foreign investors and provides a very attractive business environment. According to the World Bank Ease of Doing Business ranking 2021 Georgia ranks 7th out of 190 analyzed countries around the world while Romania occupies the 55th position. In Georgia foreign investors are targeting mainly transport, energy, construction and real estate, as well as the financial sector. However, the share of Romanian capital is very small (almost negligible, close to zero) as a share of total FDI flows.

Figure 8. FDI from Romania to Georgia, million US dollars

Year	Inflows	Share in total (per cent)
2016	0.8	0.1
2017	0.7	0.0
2018	0.6	0.1
2019	0.3	0.0
2020	0.1	0.0
2021	0.2	0.0

Source: Author's representation based on data from www.geostat.ge

Figure 9. Romanian FDI in Georgia by sector, 2016-2020

Source: International Trade Centre, Investment Map ¹

Tertiary sector, construction, real estate and transportation sectors are the most attractive economic activity areas targeted by the Romanian investors.

One of the notable indicators of bilateral economic ties is money transfers. The table below presents the incoming and outgoing monetary transfers between Georgia and Romania in 2012-2021.

Figure 10. Money transfers between Georgia and Romania, 2012-2021 (Thousand US dollars)

	2012		2013		2014		2015		2016		2017		2018		2019		2020		2021	
	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow
305.0	121.3	162.9	144.7	286.2	336.8	349.2	133.7	210.3	178.7	272.7	135.1	203.8	118.7	182.9	116.8	214.8	75.7	192.4	160.3	

Source: Author's representation based on data from National Bank of Georgia

¹ Data retrieved from <https://www.investmentmap.org/investment/time-series-by-industry>.

According to the National Bank of Georgia (2022), remittance movement both incoming and outgoing are relatively small. By the inward and outward flows of remittances Romania is not among the top partners of Georgia neither at the world scale nor within the EU region. The largest amount out-flowed from Georgia to Romania was in 2014 (336.8 thousand US dollars) and the largest amount in-flowed from Romania was in 2015 (349.2 thousand US dollars).

3. Sectorial cooperation: transport and energy

As stated by the National Security Concept of Georgia (National Bank of Georgia, 2022), the country is aware of its role in supplying the rest of the world with energy resources from the Caspian Sea and Central Asian regions via alternative routes. Georgia's Black Sea ports, the Baku-Supsa and Baku-Tbilisi-Ceyhan oil pipelines, and the Baku-Tbilisi-Erzurum gas pipeline are already active and strategically important projects. Besides them important elements of the Southern Corridor are Nabucco and the AGRI projects where both Georgia and Romania are included. They have the potential to contribute to Europe's energy security and offer opportunities for increased collaboration of the two countries in the energy and economic spheres.

Within the interconnector of liquefied natural gas Azerbaijan-Georgia-Romania-Hungary (AGRI) project, Romania and Georgia are partners. Both parties are equally interested in securing a transit role in regional energy projects, which have both economic and geostrategic value for the two states. However AGRI project is still facing a wide range of barriers and implementation difficulties. There is still unclearness on the estimation of project costs and technical details as well as the resource base. Azerbaijan has already signed a long-term agreement for supplying all forthcoming natural gas volumes produced within the second phase of the giant gas field Shah Deniz to the European countries via the Trans Anatolian Natural Gas Pipeline (TANAP), which would be connected with the Trans-Adriatic Gas Pipeline (TAP). Therefore, Azerbaijan officials should consider other sources of natural gas, which would be supplied over the Black Sea gas transportation corridor. Actually, the experts believe that the problem of natural gas shortage could be solved by joining of Turkmenistan to the AGRI project. The Turkmen gas could be transported across the Caspian Sea to the Sangachal terminal in Eastern Azerbaijan, where it should be gasified and transmitted across Azerbaijan and Georgia to the Black Sea terminals. However, it definitely would cause necessity to construct additional LNG terminals on the Caspian Sea shore, which could lead to the dramatic increase in the total cost of the project².

² Current Situation over the AGRI Project, *Eurasian Research Institute* (retrieved from <https://www.eurasian-research.org/publication/current-situation-over-the-agri-project-azerbaijan-georgia-romania-interconnector/>).

Energy cooperation between Georgia and Romania spreads to the electricity supply field as well. The Georgian transmission network operator - Georgian State Electrosystem (GSE) – has a robust ten-year network development plan for 2020-2030 (TYNDP 2020-2030) aimed at further improvement of electricity supply reliability in the country and improvement of regional connectivity of the Georgian power system. One of the projects, which is currently being evaluated for inclusion in TYNDP, is the electric and digital interconnection between Georgia and Romania (GE-RO Interconnection Project). This Interconnection Project, would create significant economic benefits for Southern Caucasus countries and Romania. In particular, the electric cable would allow to benefit from expanded export opportunities to Romania and broader South-Eastern Europe considering the hourly energy market prices and import electricity during winter time periods at competitive rates. This can reduce dependency on existing expensive imports and thermal generation³. Georgia has an opportunity to consolidate its position not only as an energy hub for both the transit of hydrocarbons from the Caucasus and Caspian Sea region, but also as a transmission nexus derived from its reasonably well-developed electrical grid and the competitive advantage in the generation of electricity from renewable sources.

As a member of the EU, NATO and the United Nations, Romania supports for the programs of these organizations in the region. The Romanian Ministry of Foreign Affairs manages development assistance through the Development Assistance Unit (UAsD). Georgia is among the three priority countries for aid together with the Republic of Moldova and Serbia. Romania, through its Agency for Foreign Development (The Romanian Agency for International Development Cooperation), is looking to provide assistance to the Republic of Georgia to improve its energy security. The intention is to assist the various Georgian energy sector stakeholders in their development, and to propose next steps for more detailed studies⁴.

In 2016 Azerbaijan Railways (ADY), Georgian Railways and Translogist Intertrans Unigrup have signed a Memorandum on the development of the Europe-Asia-Europe transport corridor through the Port of Constanta and the Port of Batumi⁵. In fact, this corridor refers to the Iran-Azerbaijan-Georgia-Romania railway axis through Tehran-Astara-Poti/Batumi Port, from where freight will be transported to the Port of Constanta. It can serve as an efficient transport connection between Asia and Europe. By the estimations, the railways have the important advantage of providing a much faster connection than maritime transport for the increased amounts of cargoes between Europe and China. Because the economic potential of both countries allows an increase in trade, the role of the port Constanta

³ GSE (retrieved from <https://www.gse.com.ge/projects/tenders/2021/Feasibility-Study-for-Construction-of-Georgia-Romania-Undersea-Power-and-Digital-Interconnection-Project>).

⁴ Information retrieved from <https://ridgeline-industrial.ro/Abstract-Georgia-ENG.pdf>.

⁵ Information retrieved from <https://www.railwaypro.com/wp/azerbajjan-georgia-and-romania-establish-new-freight-corridor/>.

to Batumi would also increase. In 2010 there was also negotiations between the governments of the two countries on the possibility of resuming bilateral scheduled ferry lines between Romania and Georgia.

Currently the most important transport projects of mutual interest are Belt and Road Initiative, Europe-Asia-Europe transport corridor and The Viking Container Train route. Georgia's future and that of the B&R initiative lie in closer integration with the Eastern European countries on the other side of the Black Sea. Participation in these international infrastructure undertakings could bring not only economic, but also security benefits.

Another significant project is the Viking Container Train involving Lithuania, Ukraine, Belarus, Bulgaria and Romania. It connects the Baltic Sea and the Black Sea by rail. It is considered one of the most impressive European projects in freight transportation, according to the Transport Commission of the European Union. In 2015, the Group joined the Viking Container Train project whereby Georgia will become the connecting knot between this project and the TRACECA. In May 2016, Azerbaijan Railways also joined the project, which will make the Viking Container Train project even more competitive. Negotiations are underway to attract customers to transport cargo via this corridor⁶.

Figure 11. Development of Transport and Logistics in Georgia and Romania, 2010-2016

Country	Year	LPI Rank	LPI Score	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
Romania	2010	59	2.84	2.36	2.25	3.24	2.68	2.90	3.45
	2012	54	3.00	2.65	2.51	2.99	2.83	3.10	3.82
	2014	40	3.26	2.83	2.77	3.32	3.20	3.39	4.00
	2016	60	2.99	3.00	2.88	3.06	2.82	2.95	3.22
	2018	48	3.12	2.58	2.91	3.18	3.07	3.26	3.68
Georgia	2010	93	2.61	2.37	2.17	2.73	2.57	2.67	3.08
	2012	77	2.77	2.90	2.85	2.68	2.78	2.59	2.86
	2014	116	2.51	2.21	2.42	2.32	2.44	2.59	3.09
	2016	130	2.35	2.26	2.17	2.35	2.08	2.44	2.80
	2018	119	2.44	2.42	2.38	2.38	2.26	2.26	2.95

Source: Author's representation based on International Logistics Performance Index data

⁶Information retrieved from Georgian Railway Annual Report 2020, pp. 48 http://www.railway.ge/app/uploads/2021/04/annual_2020.pdf

According to the Logistics Performance Index (measured by the World Bank) both countries need a number of steps to improve their logistic competitiveness and fully realize the functions of connecting the Europe and Asia, however Georgia is much behind Romania. The main transport and logistics-related obstacles to the development of the transit function of Georgia involve low quality of the local transport and transit infrastructure and monopoly in ports and terminal services (Danelia, 2017).

4. Economic cooperation in the context of new regional challenges

Generally, the reasons behind the regionalization processes vary from one region to another and there is a lack of a unique model of integration (Caraman and Maha, 2019). If we put Georgia-Romania economic relations into a broad regional context we have to consider the influences of the specific circumstances in the Eastern neighborhood and the Black Sea region. Given the location of the Black Sea region and the EU Eastern neighborhood between East and West, the region has often experienced conflicting cultural and political influences. Currently, Romania on the Western side of the Sea is a member of the EU and NATO; while Georgia, on the Eastern side, aspires its membership in the EU and NATO, at the same time its relationship with the East is growing. Although Georgia terminated its membership in the CIS organization in 2009, it has maintained bilateral free trade agreements (FTAs) with eight CIS countries (including with Russia) and the trade ties have strengthened with China after Georgia-China Free Trade Agreement was concluded in 2017. Against the background there were some changes in the geographic patterns of Georgia's export and import. During 2014-2019 total trade flows between Georgia and the EU increased. Taken export and import flows separately, there was a decrease in the share of imports from EU in Georgia's total imports from 2019, while EU's share in total Georgian exports remained relatively stable (EU, 2020). Now dependent on both Russia and Ukraine for trade, Georgia's economy is significantly influenced by the war consequences.

Black Sea is mainly perceived as a space for trade, economic development and commodity transit. Since 2007 with Bulgaria's and Romania's accession to the EU the key focus of the EU's policy in the region has been the Black Sea Synergy initiative, as a regional cooperation platform. Countries that participate in the Black Sea Synergy (Armenia, Azerbaijan, Georgia, Moldova, and Ukraine) are also part of "Eastern Partnership" which is another initiative simultaneously established with "Black Sea Synergy" as a part of the wider policy "European Neighborhood Policy" (ENP). Later on DCFTA incorporated the previous progress achieved in policy harmonization and simultaneously set future directions for reform. Association Agreement has been implemented since 2014, as the main component within European Neighborhood Policy (ENP), but comprehensive reforms were prepared and implemented much earlier. Those reforms were specifically

related to tariffs, customs service, corruption, business licensing system and financial sector regulation. For all the priority areas Georgia developed action strategies and implemented significant legislative changes. Despite this Georgia's progress in the implementation of the Association Agenda was not smooth as desired. There were weaknesses in the enforcement of the reforms. Problems with the EU conditionality mechanism also deserve mentioning as ENP and later Association Agreement was offered not as a real tool for full membership, but as an alternative to it (Shimmelfennig, 2017).

Currently the key regional challenges have economic and security nature; they involve high uncertainty and low investments, the deterioration of growth prospects and rising inflation in the whole region, including the EU. Simultaneously an urgent issue is to find alternative sources and routes for energy supply and cope with the food supply shocks. In transport and energy sectors due to its interconnection with the transport and energy networks of the European Union, Georgia is recognized as a strategic country for the effective cooperation between the EU and the States in the Black Sea and Caspian regions. It has the potential to contribute to energy security and supply diversification needs of the EU and perform the strategic role as a transit country for oil and gas coming from the Caspian basin. Considering the above Georgia needs to develop regional economic cooperation and the related policy tools and instruments not only from multilateral, EU-wide perspective (where sharing of institutions, ideas and values take place), but also strengthen its bilateral, country-to-country dimension in order to translate regional integration benefits into the real economic gains.

Conclusions

Georgia and Romania have opportunities to deepen economic cooperation in a number of directions, such as trade in goods, transport and energy services, and bilateral investments, etc. Despite its reduced share in Georgia's total trade, Romania is an important trade partner of Georgia by both export and import flows. The main export categories are traditional and simple products. Fertilizers and raw materials take considerable share in exports. Import from Romania is dominated by fuels and primary consumer goods. All other commodity groups are represented either in a smaller amount or are rather fragmentary. The conclusion drawn from the analysis of the bilateral export and import patterns is that the economic cooperation potential between Georgia and Romania is not fully realized. In our view the exporting potential needs to be further explored, in order to reveal the opportunities of participation in the global value chains.

The analysis of the bilateral FDI flows between Georgia and Romania shows that the scope of interest of the Romanian investors is limited, which does not significantly affect the economic performance of the country. The potential of bilateral investment activities is also under-realized.

In our view joint efforts of the government, private sector and the academia should be made to develop interpersonal communication networks and to increase mutual awareness between the two countries in order to promote trade and investment activities. These steps could involve: on the part of the government organization of the exhibitions, use of the information spaces and active engagement of the economic units of the Embassies in trade promotion, etc; on the part of the private sector - joint tour initiatives, on the part of the academic circles - joint research into the potential areas of bilateral cooperation, participation in exchange programs not only to share experience, but also to “discover” different areas in the cultures of the two countries and expand communication, what in its turn could lay grounds for new business undertakings. These steps could promote efficient policy decisions at the macro level, while at the micro level can help to improve the performance of the existing and the potential firms in the market and, hence, ensure deeper and stronger bilateral economic ties.

Considering the security threats and the current regional challenges Georgia needs further steps towards intensification of economic ties with the EU. These ties should comprise not only trade in goods, but also services and investments. Bilateral, country-to-country dimension should be strengthened in order to translate potential regional integration benefits into the real economic gains.

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